

Underpayment of Estimated Tax by Individuals

General Instructions

If additional information is required, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix (602) 255-3381
Tucson (520) 628-6421
Other Arizona areas 1-800-352-4090
Form Orders (602) 542-4260
Forms by Fax (602) 542-3756
Recorded Tax Information
Phoenix (602) 542-1991
Other Arizona areas 1-800-845-8192
Hearing impaired TDD user
Phoenix (602) 542-4021
Other Arizona areas 1-800-397-0256

Purpose of Form

Arizona requires certain individuals to make estimated income tax payments. An individual who fails to make the required estimated payments is subject to penalties and interest on any estimated tax payment which is late or underpaid.

Form 221 is used by individuals to determine whether they paid enough estimated tax and whether they are subject to penalty and interest for late payment or underpayment of estimated taxes.

Are You Subject to the Penalty?

An individual who reasonably expected his or her Arizona gross income to exceed \$75,000 in 1995 or whose Arizona gross income in 1994 was greater than \$75,000 was required to make Arizona estimated income tax payments during 1995.

In projecting current Arizona gross income, you must use ordinary business care and prudence in determining if estimated tax payments are required.

If you were unable to project your current year's Arizona gross income, you may request a waiver from the requirement to make estimated payments for one or more payment periods in the

current year by attaching a written statement to your return for the year. Your waiver request must include the reason why your Arizona gross income could not have reasonably been projected for one or more payment periods during the current taxable year.

A waiver is available only if your Arizona gross income in the preceding taxable year was less than \$75,000, and with the use of ordinary business care and prudence, you were unable to reasonably project your current year's Arizona gross income. A completed Form 221 and your statement must be attached to your return.

The Arizona gross income of a single individual will be the same as his or her federal adjusted gross income reported on the federal return. The Arizona gross income of a married individual who files separate returns for both federal and Arizona purposes will be the federal adjusted gross income reported on the federal return. However, the federal adjusted gross income reported on a joint federal return filed by married individuals is not the income which determines each individual's Arizona gross income for estimated payment purposes. In order to determine whether a married individual is subject to Arizona's estimated payment requirements, the married individual needs to determine what portion of the total income is attributable to that individual. Therefore, each spouse must compute his or her income as if separate Arizona income tax returns are filed. Based on this calculation, the taxpayer will be able to determine whether he or she is required to make Arizona estimated income tax payments.

When each spouse separately calculates his or her income, Arizona's community property provisions must be considered. Generally, any income that is designated as community income is taxable one-half to each spouse. Each spouse may claim one-half of the deductions and credits related to items of community property. In addition, each spouse is entitled to

claim one-half of the total income tax withheld on community income. Therefore, for estimated payment purposes, each spouse's Arizona gross income must reflect one-half of the community income from all sources taxable to Arizona plus any separate income taxable to Arizona.

If you had an Arizona gross income under \$75,000 for both 1994 and 1995, you are not subject to the penalty.

Should I Complete This Form?

If your individual Arizona gross income for 1994 or 1995 exceeded \$75,000, you must complete this form to determine whether or not you are subject to the penalty. *The completed Form 221 must be attached to your Arizona Form 140, Form 140PY, or Form 140NR.*

An individual who for federal purposes reports as a farmer or fisherman, is a calendar year filer who files the Arizona return by March 1, 1996, and pays in full the amount stated on the return as payable is not required to make estimated payments or complete Form 221. Fiscal year farmer or fisherman filers who file and pay on or before the first day of the third month after the end of a fiscal year are also not required to make estimated payments or complete Form 221.

If you are required to make Arizona estimated income tax payments, your payments must reasonably reflect your Arizona income tax liability for the taxable year. Your combined Arizona estimated income tax payments and Arizona withholding amounts must total at least 90 percent of the tax due for the current year or 100 percent of the tax due for the preceding taxable year.

Part A - Calculation of Underpayment

To determine whether or not you have underpaid your 1995 Arizona estimated income tax payments, complete lines 2 through 13 as follows:

Penalty and Interest Exceptions

You will not have to pay the penalty and interest if either 1 or 2 applies:

1. You had no federal tax liability for 1994; you were a U.S. citizen or resident of the U.S. for the entire year; and your 1994 tax return was (or would have been had you been required to file) for a full 12 months.
2. The total tax shown on your 1995 federal income tax return minus your federal withholding is less than \$500.00.

If either 1 or 2 above apply to you, check the box on line 1 and complete lines 2 through 13.

Penalty and Interest Waivers

If you have an underpayment on line 13, all or part of the penalty and interest for that underpayment will be waived if the department determines that:

1. The underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be inequitable to impose the penalty.
2. In 1994 or 1995, you retired after age 62 or became disabled, and your underpayment was due to reasonable cause.

To request a waiver for an underpayment described in either 1 or 2 above, do the following:

- a. Check the box on line 1.
- b. Complete Form 221 through line 40 without regard to the waiver. Write the amount you want waived in parentheses on the dotted line next to line 41. Subtract this amount from the total penalty and interest you figured without regard to waiver, and enter the result on line 41.
- c. Attach Form 221 and a statement to your return explaining the reasons you were unable to meet the estimated tax requirements and the time period for which you are requesting a waiver.

d. If you are requesting a penalty and interest waiver due to a casualty, disaster, or other unusual circumstances, attach documentation such as copies of police and insurance company reports.

e. If you are requesting a penalty and interest waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.

Line 2 -

On line 2 of the Arizona Form 221, enter your 1995 income tax liability from Form 140, page 1, line 29, or Form 140PY, page 1, line 29, or Form 140NR, page 1, line 29.

NOTE: *A taxpayer who computes his or her tax liability under the claim of right provisions should enter the net tax liability as computed under the claim of right provisions.*

Line 3 -

Enter any tax credits claimed on your 1995 individual income tax return.

Line 4 -

Subtract line 3 from line 2. This is your 1995 tax liability.

Line 5 -

Multiply the amount on line 4 by 90 percent. Enter the result on line 5.

Line 6 -

Enter the preceding year's tax liability (after tax credits) on line 6. Only enter an amount on line 6 if you were required to file and did file an Arizona personal income tax return for the preceding tax year. If you were not required to file or did not file an Arizona personal income tax return for the preceding tax year, skip this line.

Line 7 -

If you entered an amount on line 6, enter the lesser of line 5 or line 6 here. If you did not enter an amount on line 6, enter the amount from line 5 here.

Line 8 -

Enter in columns (a) through (d) the due dates for your federal estimated income tax payments if different from the preprinted dates.

Line 9 -

Divide the amount on line 7 by four (4). Enter the result in each column. However, under certain conditions, you may not have been required to make your payments in four equal installments. If you were not required to make your payments in four equal installments, check the box and enter the amount of your required payment(s) in the appropriate column. Payments made under the following methods may result in payments not being made in four equal installments:

1. If you use the annualized income installment method, complete the worksheet on Form 221, page 2, and enter the amount from line 23 of that worksheet in each column of line 9. If you use the annualized income installment method, you must check the box on line 9.
2. If you file your Arizona return by January 31, 1996, and pay in full the amount stated on the return as payable, there is no requirement to make the fourth estimated tax payment. Fiscal year filers must file and pay by the last day of the month following the close of the fiscal year.
3. If you report as a farmer or fisherman for federal purposes, you are only required to make one installment for a taxable year. The due date for this installment for a calendar year filer was January 16, 1996. The due date for a fiscal year filer is the 15th day of the first month after the end of a fiscal year. There is no requirement to make this payment if you file your Arizona return on or before March 1, 1996, and pay in full the amount stated on the return as payable. Fiscal year filers must file and pay on or before the first day of the third month after the end of a fiscal year.

4. If you are an individual who elects to be treated as a nonresident alien on the federal income tax return, you may make three estimated payments. The due dates for these installments were June 15, 1995, September 15, 1995, and January 16, 1996. The first installment must have equalled 50% of the total required payments.

Line 10 - Estimated Tax Paid and Withheld

Enter the estimated tax payments you made plus any Arizona income tax withheld for that quarter.

In column (a), enter the tax payments you made by April 17, 1995, that were for the 1995 tax year. In column (b), enter payments you made after April 17 through June 15, 1995. In column (c), enter payments you made after June 15, 1995 through September 15, 1995. In column (d), enter payments you made after September 15, 1995, through January 16, 1996.

When figuring your payment dates and the amounts to enter on line 10 of each column, apply the following rules:

1. You are considered to have paid one-fourth of Arizona income tax withheld on each payment due date unless you can show otherwise.
2. Include in your estimated tax payments any overpayment of tax from your 1994 return that you elected to apply to your 1995 estimated tax. This amount should be reported in column (a).
3. If you file your return and pay the tax due by January 31, 1996, include on line 10, column (d), the amount of tax you pay with your return. In this case, you will not owe a penalty for the payment due by January 16, 1996.

NOTE: If line 10 equals or is greater than line 9 in all columns, you do not owe a penalty. Do not complete the rest of this form. However, you must attach a copy of this form to your return.

Lines 11 through 13

Complete lines 11 through 13 for one payment period **before** you go to the next period.

If you have an overpayment on line 13 for the period, you may apply it to a prior period underpayment to stop the accrual of interest on that underpayment. If you apply an overpayment in this manner, use the date the subsequent overpayment was paid when you figure the interest on the underpayment on line 13. The remaining portion of the overpayment may then be carried forward to line 11 of the next period. If you do not choose to stop the accrual of interest on a prior underpayment, you may carry the entire overpayment forward to line 11 of the next period.

Part B - Underpayment of Estimated Tax Penalty

Compute the penalty by applying the applicable rate to each underpayment. The penalty is computed for the number of days that the underpayment remained unpaid.

The penalty is equal to the interest that would accrue on the underpayment, but cannot exceed more than 10 percent of the underpayment. This penalty is calculated like interest.

The Arizona interest rates are established at various times during the year (Arizona interest rates are the interest rates prescribed by Internal Revenue Code § 6621 for each calendar quarter).

NOTE: If the underpayment has not been paid by December 31, 1995, the outstanding penalty which relates to that underpayment will compound on January 1, 1996.

Each of lines 14 through 26 is used to compute the penalty attributable to different rate periods.

List your payments to figure your penalty applicable to these installments.

TABLE 1

Payments after 4/17/95 through 6/30/95

(a) Date	(b) Payments

TABLE 2

Payments after 6/30/95 through 9/30/95

(a) Date	(b) Payments

TABLE 3

Payments after 9/30/95 through 12/31/95

(a) Date	(b) Payments

TABLE 4

Payments after 12/31/95 through 4/15/96

(a) Date	(b) Payments

Chart of Total Days per Period

If an underpayment remained unpaid for an entire period, use the chart below to determine the number, of days to enter on line 15, columns (a) and (b), line 18, columns (a), (b), and (c), and line 21, columns (a), (b), and (c), and line 24 columns (a), (b), (c), and (d).

Rate Period,	(a)	(b)	(c)	(d)
1 (Line 15)	74	15		
2 (Line 18)	92	92	15	
3 (Line 21)	92	92	92	
4 (Line 24)	106	106	106	90

For example, if you have an underpayment on line 13, column (a), but show no payments, you would enter "74" on line 15.

To determine if you need to make additional computations, see the interest calculation instructions.

Line 26 -

Total penalty on underpaid or late paid estimated payments. Add the amounts on line 16, columns (a) and (b), and the amounts on lines 19 and 22 columns (a), (b), and (c), and the amounts on lines 25, columns (a), (b), (c), and (d).

Part C - Interest Calculation

Calculate the interest by applying the applicable rate against each underpayment. The interest is calculated for the number of days that the underpayment remained unpaid.

The interest rates are established at various times during the year. The interest rate for the first and second quarters of 1996 (January 1, 1996 through March 31, 1996 and April 1, 1996 through June 30, 1996) were not established as of the date this form was printed. To obtain the interest rate(s) which applies from January 1, 1996 to April 15, 1996, call the department's general information number listed in the front of your booklet.

Each of lines 27 through 40 is used to compute the interest attributable to different rate periods.

List your payments for 1995, before beginning to figure your interest.

TABLE 1	
Payments after 4/17/95 through 6/30/95	
(a) Date	(b) Payments

TABLE 2	
Payments after 6/30/95 through 9/30/95	
(a) Date	(b) Payments

TABLE 3	
Payments after 9/30/95 through 12/31/95	
(a) Date	(b) Payments

TABLE 4	
Payments after 12/31/95 through 4/15/96	
(a) Date	(b) Payments

List only the payments made during the dates shown in the table heading. Apply the following rules:

1. If you have any withheld Arizona income tax, you are considered to have paid one-fourth of these amounts on each payment due date unless you can show otherwise.

For example, if you had Arizona income tax withheld from your wages of \$4,000 during the year, list \$1,000 as being paid on June 15, 1995, September 15, 1995, and January 16, 1996 in the applicable table. Do not list the withholding attributable to the first payment due date April 17, 1995.

2. Any balance due of income tax that you pay with your tax return is considered a payment for this purpose and should be listed. Use the date you file your return as the payment date, unless you file late. In that case, use April 15, 1996.

Chart of Total Days per Period

If an underpayment remained unpaid for an entire period, use the chart below to determine the number of days to enter on line 29, columns (a) and (b), line 32, columns (a), (b), and (c), and line 35, columns (a), (b), and (c), and line 38 columns (a), (b), (c), and (d).

Rate Period,	(a)	(b)	(c)	(d)
1 (line 29)	74	15		
2 (line 32)	92	92	15	
3 (Line 35)	92	92	92	
4 (line 38)	106	106	106	90

For example, if you have an underpayment on line 27, column (A), but show no payments, you would enter "74" on line 29.

Rate Period 1

Enter on line 29 the number of days from 4/17/95 to the date of the first payment listed in Table 1. If no payments are listed, enter "74".

If There is a Payment Listed in Table 1

On a separate sheet of paper apply the payment to the underpayment shown on line 27. The underpayment for the computation on line 29 is the amount of the payment applied to the line 27 underpayment. If the payment is more than the underpayment, apply only an amount equal to the underpayment and use that amount for the line 29 computation.

If There Are No Payments Listed in Table 1

The underpayment is the entire underpayment balance because the entire underpayment was unpaid for the whole rate period.

Determine if You Need To Make Additional Computations

Whether you need to make additional computations depends on which of the following four conditions applies to you.

1. The payment listed in the table was enough to reduce the underpayment to zero. There are no further computations to make for column (a). Calculate the interest for any other underpayments shown in columns (b) through (d) of line 27.
2. No payments are listed in the table. You will need to calculate the interest for rate periods 2, 3, and 4. To do this, complete column (a) of lines 32, 33, 35, 36, 38, and 39.
3. The payment listed in the table did not reduce the underpayment to zero, and no other payments are listed. Make another computation on lines 32, 33, 35, 36, 38, and 39. These computations are to calculate the interest on the underpayment balance; that is, the portion for the underpayment that remained unpaid for the entire rate period. In this case, you would enter another number in the entry space for lines 29 and 30, as follows:

On line 29, enter "74". This is the total number for days in the first rate period (see the chart above).

On line 30, make the computation and enter the result. In this case, however, the underpayment" in the computation is the balance of the underpayment remaining in the period.

4. Additional payments are listed in the table and the first payment was not enough to reduce the underpayment to zero. Make a separate computation for each payment listed until the underpayment is reduced to zero. If there is still an underpayment balance after applying all of the payments, you will need to calculate the interest on the balance of the underpayment in the same manner as explained earlier under condition 2.

Rate Period 2

If an underpayment balance remains after applying any payments in Table 1, calculate the interest attributable to that balance on lines 32 and 33. Generally, use the same steps as explained under Rate Period 1 above, but use the date and interest rate shown on lines 32 and 33 and ***use only the payments listed in Table 2.***

NOTE: *Interest is compounded annually (on January 1 of each year) and any interest outstanding as of that date is added to the principal amount of the tax (installment underpayment/late payment). The amount added to the principal is thereafter considered a part of the principal amount of the tax and accrues interest until paid.*

Line 40 -

Total interest on underpaid or late paid estimated payments. Add the amounts on line 30, columns (a) and (b), and the amounts on line 33 and 36 columns (a), (b), and (c), and the amounts on line 39, columns (a), (b), (c), and (d). Enter the totals.

Line 41 -Total Penalty and Interest.

Total penalty and interest Add the amounts on lines 26 and 40. Enter the total here and on Form 140, page 1, line 52 or Form 140PY, page 1, line 51, or Form 140NR, page 1, line 49.